

J.E. FORTENBERRY, III, PC
Certified Public Accountant
1929 Spillway Road, Suite B
Brandon, MS 39047
(601)992-5292, fax (601)992-2033

Financial Audit Management Report

Major General Harold A. Cross, Adjutant General
Mississippi Military Department
P.O. Box 5027
Jackson, Mississippi 39296-5027

Dear General Cross:

J. E. Fortenberry, III, PC has completed its audit of selected accounts included on the financial statements of the Mississippi Military Department for the year ended June 30, 2005. These financial statements are consolidated into the State of Mississippi's Comprehensive Annual Financial Report.

The J.E. Fortenberry, III, PC staff members participating in this engagement included Jeff Adcock, manager; Rebecca Jefferis, Senior Auditor; and Jack Fortenberry, Partner.

These accounts included:

- Fund 3701 Special Revenue account number 12400 Due from Federal Government
- Fund 3701 Special Revenue account number 22100 Deferred Federal Revenue
- Fund 3701 Special Revenue account number 44120 National Guard
- Fund 3701 Special Revenue account number 60000 Salaries and Wages
- Fund 3701 Special Revenue account number 61000 Contractual Services
- Fund 3701 Special Revenue account number 63000 Capital Outlay

- Fund 3709 Special Revenue account number 12400 Due from Federal Government
- Fund 3709 Special Revenue account number 22100 Deferred Federal Revenue
- Fund 3709 Special Revenue account number 44120 Federal Revenue
- Fund 3709 Special Revenue account number 60000 Salaries and Wages
- Fund 3709 Special Revenue account number 61000 Contractual Services

Capital Assets C1000 Buildings and F1000 Construction in Progress

The fieldwork for audit procedures and tests was completed on September 23, 2005. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing our audit of the above listed selected accounts included in the financial statements, I considered the Mississippi Military Department's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on these accounts and not to provide assurance on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my opinion, could adversely affect the agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This matter is noted under the heading Reportable Conditions.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described in the finding referred to above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether these selected accounts included on the financial statements of the Mississippi Military Department are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. I am pleased to report the results of my tests disclosed no instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Military Department throughout the audit. If you have any questions or need

more information please feel free to call.

REPORTABLE CONDITION

Construction in Progress Activity Should Be Properly Recorded and Reconciled

FINDING:

During the course of the audit, I noted the Mississippi Military Department included maintenance and repair costs and the cost of federal projects for which the state will not retain title in the construction in progress account in their GAAP reporting package. I also noted the agency did not reconcile the deletions reported in the construction in progress account with additions reported in other capital asset accounts. According to accounting principles generally accepted in the United States of America (GAAP), the cost of maintenance and repairs should not be capitalized on the financial statements. Subsection 23.60.10 of the Mississippi Agency Accounting Policies and Procedures (MAAPP) manual states that when construction in progress projects are completed, the costs in the construction in progress account are to be classified to one or more of the other major asset accounts. The effect of including maintenance and repair expense in the construction in progress account overstates the additions, deletions and ending balance of the account. In addition, the failure to reconcile deletions from the construction in progress account to additions in other capital asset accounts could result in misstatements to the financial statements not being detected.

RECOMMENDATION:

I recommend the Mississippi Military Department ensure that maintenance and repair projects and costs relating to federal projects are not included in the construction in progress activity recorded on the financial statements. I further recommend the agency reconcile the deletions reported in the construction in progress account with the additions reported in other capital asset accounts in order to ensure the financial statements are properly stated.

A handwritten signature in black ink, appearing to read "A. H. ...", is written over a horizontal line.

Jackson, Mississippi
September 23, 2005

End of Report